

Report
of the
Examination of
Patriot General Insurance Company
Stevens Point, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a
compliance examination has been made of the affairs and financial condition of:

PATRIOT GENERAL INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Patriot General Insurance Company (Patriot General or the company) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Patriot General was incorporated under its present name on January 2, 1968, in accordance with the Massachusetts General Laws, and commenced business on March 28, 1968. Patriot General was formed as a stock company by two affiliated mutual property and casualty insurers, the Middlesex Mutual Insurance Company (Middlesex Mutual) and the Lynn Mutual Insurance Company (Lynn Mutual).

On October 20, 1967, Middlesex Mutual and Lynn Mutual formed the North Bridge Corporation (North Bridge), a downstream holding company. Middlesex held 80% ownership in the corporation, with the remaining 20% held by Lynn Mutual. In 1968, Middlesex and Lynn Mutual contributed their respective ownership interests in the newly established Patriot General Insurance Company to North Bridge. This resulted in Middlesex Mutual indirectly owning 80% of North Bridge and Lynn Mutual indirectly owning 20%.

Lynn Mutual was absorbed by Middlesex Mutual through a merger transaction effective December 31, 1970, thereby making Middlesex Mutual the sole owner of North Bridge. On June 11, 1974, with the approval of the Massachusetts Insurance Division, under power granted to it by legislative act, the Middlesex Mutual Insurance Company was converted to a stock corporation and renamed Middlesex Insurance Company (Middlesex). The Sentry Corporation then purchased 100% of the common stock of Middlesex. The Sentry Corporation was a wholly owned subsidiary of Sentry Insurance a Mutual Company (SIAMCO).

Effective August 29, 1977, North Bridge Corporation was merged into Middlesex Insurance Company, thereby transferring direct control of Patriot General to Middlesex. In 1986, ownership of Middlesex was transferred from The Sentry Corporation to SIAMCO as part of an effort to separate insurance operations from noninsurance operations. In this way, Patriot General became an indirect wholly owned subsidiary of SIAMCO, its current ultimate parent.

On April 28, 1994, Patriot General, together with its immediate parent, Middlesex, redomiciled from Massachusetts to Wisconsin. The articles of incorporation and bylaws of the company were restated effective April 29, 1994.

The company writes direct premium in twelve states and is licensed in twenty-one states. In 2003, the company wrote direct premium in the following states:

Georgia	\$18,991,204	56.3%
Florida	4,971,927	14.7
Wisconsin	4,558,917	13.5
Connecticut	2,197,913	6.5
Michigan	1,161,039	3.4
All others	<u>1,827,828</u>	<u>5.6</u>
Total	<u>\$33,708,828</u>	<u>100.0%</u>

Patriot General Insurance Company derives about half of its direct premium writings from nonstandard auto and motorcycle insurance sold through independent agents. The principal marketing role of Patriot General within the Sentry Insurance Group as a whole is its geographic focus relative to Dairyland Insurance Company, an affiliate that also specializes in the sale of nonstandard auto and motorcycle insurance through independent agents. In overlapping territories, the presence of two affiliates in the same jurisdiction has provided Sentry Insurance Group rating flexibility.

Patriot General's production is derived from independent agents and direct writers. The company uses standard contract forms and commission schedules for its sales representatives. Independent agents earn commissions, which depend on line of business sold and application source (paper or electronic). Independent agents may also earn contingent commissions based on production volume and profitability of the business written. Direct writers, who are employees of SIAMCO, receive subsidies at the beginning of their employment, a comprehensive benefit package, are eligible for special bonuses and incentives, as well as receiving commissions generally paid to independent agents.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

- (a) Fire, Inland Marine, and Other Property
- (c) Disability
- (d) Liability and Incidental Medical Expense
- (e) Automobile and Aircraft
- (f) Fidelity
- (g) Surety
- (k) Worker's Compensation
- (n) Miscellaneous.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 716,880	\$	\$ 716,880	\$0
Allied lines	887,014		887,014	
Commercial multiple peril	1,073,641		1,073,641	
Inland marine	148,079		148,079	
Earthquake	2,072		2,072	
Worker's compensation	10,535,848	118,151	10,653,999	
Other liability - occurrence	607,675		607,675	
Products liability - occurrence	584,503		584,503	
Private passenger auto liability	12,624,856		12,624,856	
Commercial auto liability	1,250,211	104	1,250,315	
Auto physical damage	5,242,782	39	5,242,821	
Fidelity	29,034		29,034	
Burglary and theft	<u>6,234</u>	<u> </u>	<u>6,234</u>	<u>—</u>
Total All Lines	<u>\$33,708,828</u>	<u>\$118,294</u>	<u>\$33,827,123</u>	<u>\$0</u>

The company cedes 100% of its business to its parent, Middlesex Insurance Company, pursuant to a 100% quota share treaty. Private passenger auto liability represents 37% of the direct premiums, while auto physical damage accounts for 18% and worker's compensation accounts for 31%.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members elected annually by the shareholder. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members receive no compensation specific to their service on the board because all are employees of the parent, Sentry Insurance a Mutual Company.

Patriot General's board of directors meets once a year. Other actions of the board are evidenced by consent resolutions signed by all directors. This practice is permitted by s. 180.0821, Wis. Stat.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President, Sentry Insurance a Mutual Company	2005
Janet L. Fagan Stevens Point, Wisconsin	Vice President and Chief Actuary, Sentry Insurance a Mutual Company	2005
William J. Lohr Stevens Point, Wisconsin	Vice President and Treasurer, Sentry Insurance a Mutual Company	2005
William M. O'Reilly Stevens Point, Wisconsin	Vice President, General Counsel and Corporate Secretary, Sentry Insurance a Mutual Company	2005
James J. Weishan Stevens Point, Wisconsin	Vice President – Investments, Sentry Insurance a Mutual Company	2005

Officers of the Company

The officers serving at the time of this examination are as follows. The officers are employed and compensated by Sentry Insurance a Mutual Company. The officers of Patriot General may also be officers of other companies in the Sentry Group. The salaries listed below are the portion of the officer's total salary that is allocated to Patriot General.

Name	Office	2004 Compensation
Dale Robert Schuh	Chief Executive Officer	\$35,619
James Craig Clawson	President	4,411
William James Lohr	Treasurer	6,218
William Michael O'Reilly	Secretary	5,865
Janet Leitner Fagan	Vice President	7,560

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company did not have any committees at the time of the examination.

IV. AFFILIATED COMPANIES

Patriot General is a member of a holding company system (Sentry Insurance Group) controlled by SIAMCO, a Wisconsin-domiciled mutual insurer. Including Patriot General, SIAMCO has 22 direct and indirect subsidiaries and affiliates, including 11 insurers and 11 noninsurance entities. SIAMCO is also affiliated with Dairyland County Mutual Insurance Company of Texas through common management. A chart of all of the entities in the holding company system is presented later in this section of the examination report.

A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates with which Patriot General has reinsurance or other important affiliated relationships.

Sentry Insurance a Mutual Company

Sentry Insurance a Mutual Company, the parent organization of the Sentry Insurance Group, is licensed in all 50 states, the District of Columbia, and Canada. On a direct basis, the company writes a wide range of property and casualty insurance products, predominantly worker's compensation and automobile coverages. SIAMCO has a 60% participation in the affiliated pooling agreement, whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The 2003 annual statement reported assets of \$4,282,734,663, liabilities of \$2,105,670,251, policyholders' surplus of \$2,177,064,411, and net income of \$116,879,367. SIAMCO was examined concurrently with Patriot General as of December 31, 2003, and the results of that examination are expressed in a separate report.

Middlesex Insurance Company

Middlesex Insurance Company (Middlesex) is a Wisconsin-domiciled stock property and casualty insurer licensed in 40 states and the District of Columbia. The origin of this company dates back to March 29, 1826, when it was chartered by the Massachusetts Legislature as the Middlesex Mutual Fire Insurance Company. Conversion from a mutual to a capital stock company was effected by charter amendment on June 11, 1974, in connection with SIAMCO's acquisition of control, at which time it adopted its present name. SIAMCO has since held 100% ownership

and, while presently its interest is direct, control has at times been indirect. On April 28, 1994, the company redomesticated from Massachusetts to Wisconsin.

Of its direct business, auto lines account for 34% of the business and worker's compensation accounts for 54%. The company also assumes 100% of the business of Patriot General Insurance Company, a wholly owned subsidiary. Middlesex has a 10% participation in the affiliated pooling agreement. The 2003 annual statement reported assets of \$494,973,228, liabilities of \$345,065,105, policyholders' surplus of \$149,908,124, and net income of \$11,817,202. Middlesex was examined concurrently with Patriot General as of December 31, 2003, and the results of that examination are expressed in a separate report.

Affiliated Agreements

Patriot General has no employees of its own. All operations are conducted by employees of its parent organization, SIAMCO, in accordance with its business practices and internal controls. In addition, the company's operations are affected by written agreements with Sentry Insurance Group affiliates. The reinsurance contracts are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Service Agreement

Patriot General entered into an intercompany servicing agreement with SIAMCO effective December 31, 2003. This agreement was amended and restated as of March 19, 2004, to include an updated version of Exhibit 1, Intercompany Settlement Policy described below, to add Parker Centennial Assurance Company (Parker Centennial). Services provided by SIAMCO include, but are not limited to, premium accounting and collection, budgeting, disbursement services, administration of loss and loss adjustment expense payments, and management services. The agreement permits Patriot General to audit records pertaining to services performed by SIAMCO under this agreement. Termination, or changes in the terms and conditions of service, may be effected by either party on 30 days' written notice. The form of the agreement is structured so that essential aspects of the allocation methodology itself are referenced in attachments which are periodically updated.

Intercompany Settlement Policy

The Intercompany Settlement Policy has been amended and restated to add or delete companies as necessary. This contract was last amended and restated as of March 19, 2004, to add Parker Centennial. The cash management area settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for daily, weekly, monthly, semi-annual and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and Sentry Aviation Services and Sentry Services, which are settled as funds are available.

Sentry Complex Income Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for all companies that are party to SIAMCO's consolidated return. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial Assurance Company (Parker Centennial). The key premise of this policy is that parties to the consolidated return that receive a tax reduction through utilization of some other member's tax loss are to compensate that member for the use of the loss. Federal income tax payable and tax benefits receivable are to be settled among the participants on the consolidated return on the same dates as would be required of each participant on a separate return basis.

Joint Investment Agreement

Effective January 1, 1980, the company entered into a joint investment agreement with Sentry Insurance a Mutual Company and various other affiliates in the Sentry Insurance Group. This agreement established the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. The fifth amended and restated agreement was entered into as of September 1, 2004, to delete Sentry Life Insurance Company of New York (SLONY). SIAMCO is designated as the managing partner, though the agreement

permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U. S. federal government with a maximum duration of twelve months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, Inc. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Agreement with Sentry Investment Management, Inc.

On October 31, 1991, the company entered into an investment advisory agreement with Sentry Investment Management, Inc. (SIMI). This contract was amended and restated as of December 31, 2003. Under this contract, SIMI is employed to manage and direct the investment and reinvestment of the assets of Patriot General, subject to the control of its board of directors. SIMI agrees to comply with the company's articles, bylaws, investment policies, and all applicable federal or state laws. Provided it acts in good faith, the advisor is held harmless except in the event of a loss resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard. SIMI charges the company a monthly fee computed as follows:

One twelfth (1/12) of an amount equal to the sum of (a) and (b)

- (a) Common stocks, excluding those of affiliates:
.379 percent (\$3.79 per \$1,000) of market value;
- (b) Bonds and preferred stocks, excluding those of affiliates:
.0379 percent (\$.379 per \$1,000) of market value.

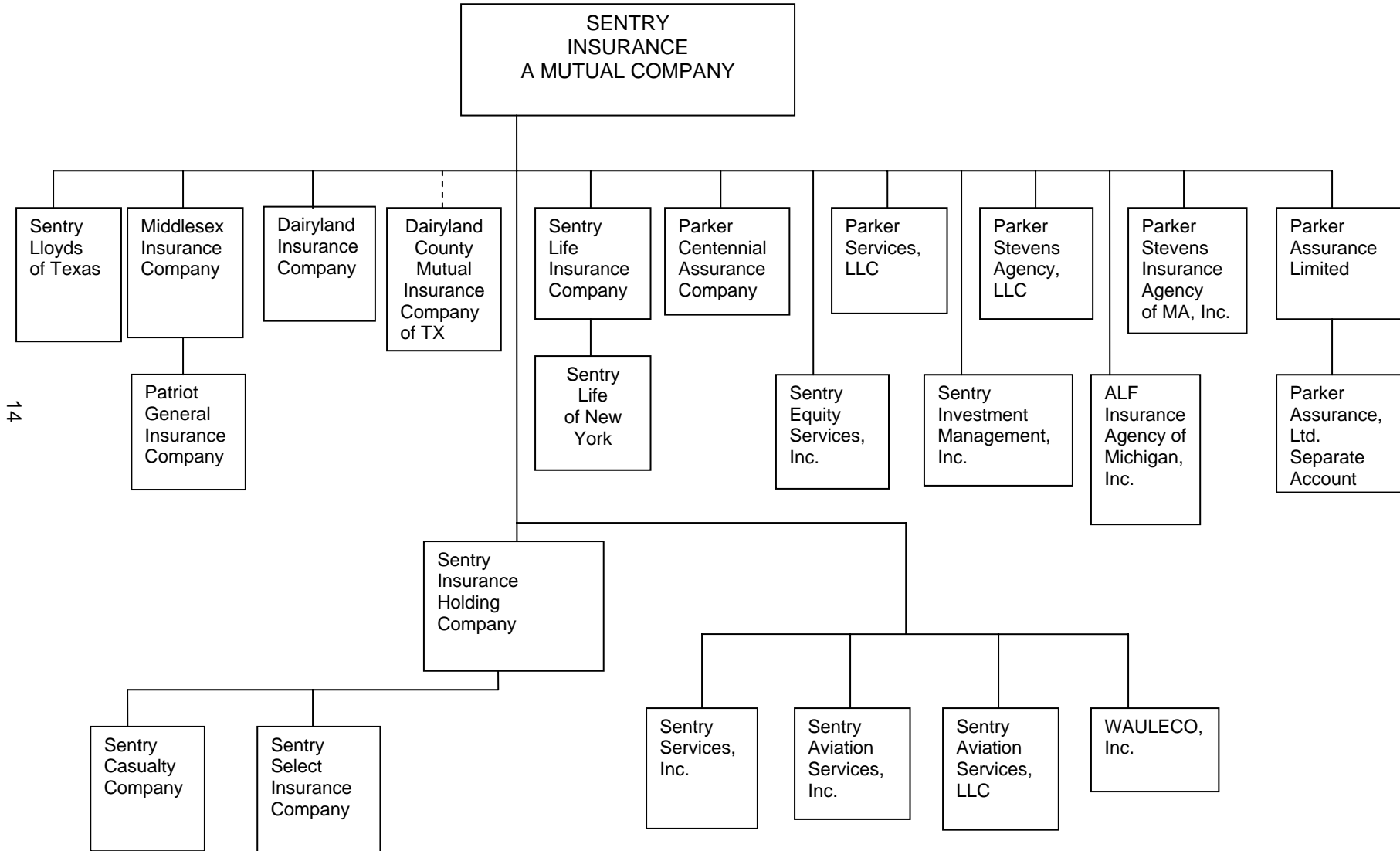
In addition, the actual cost of any expense borne by the advisor on behalf of the company is reimbursed. The contract may be terminated by either of the parties with 60 days' written notice.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to

an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

**Sentry Group
Organizational Chart
As of December 31, 2004**



V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The affiliated ceding contract includes proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: 100% Quota Share Reinsurance
- Reinsurer: Middlesex Insurance Company
- Scope: All business written by the company
- Retention: None
- Coverage: 100% of all loss and loss adjustment expenses incurred by the company
- Premium: 100% of gross premiums written and assumed
- Commissions: An amount equal to the actual underwriting expenses, policyholders' dividends, and unallocated claim expenses of the company, with return commission allowed on return premiums at the same rate
- Effective date: December 31, 2003 (Amended and Restated)
- Termination: This treaty may be terminated as of 11:59 p.m. Eastern Standard Time, on the last day of any calendar month by either party giving the other 30 days' notice by registered mail, or at any time by mutual consent of both parties; in the event of termination, the reinsurer shall return to the company the full unearned premium reserve, computed on the monthly pro rata basis of the effective date of the cancellation, less the ceding commission.

In effect, Patriot General Insurance Company does not retain any net premiums written, net premiums earned, net losses incurred, loss adjustment expenses, or underwriting expenses under this contract and, therefore, cannot incur an underwriting profit or loss as long as this treaty is in force.

Nonaffiliated Assuming Contracts

The company is a participant in two involuntary pools: Commonwealth Auto Reinsurers, a joint underwriting association for motor vehicle insurance sponsored by the Commonwealth of Massachusetts, and the National Workers Compensation Reinsurance Bureau. All premiums assumed under these plans are ceded to Middlesex Insurance Company under the terms of its affiliated ceding contract.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Patriot General Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$14,688,698	\$	\$14,688,698
Short-term investments	2,212,355		2,212,355
Receivable for securities	2,025		2,025
Investment income due and accrued	223,718		223,718
Premiums and considerations:			
Uncollected premiums and agents'			
balances in course of collection	750,252	125,737	624,515
Reinsurance:			
Amounts recoverable from reinsurers	434,942		434,942
Current federal and foreign income tax			
recoverable and interest thereon	3,140		3,140
Guaranty funds receivable or on			
deposit	20,300		20,300
Receivable from parent, subsidiaries,			
and affiliates	588,525		588,525
Write-ins for other than invested			
assets:			
Reins A/R-affiliate	411,466		411,466
Amounts billed and receivable under			
high deductible policies	15,738		15,738
Equities and deposits in pools and			
associations	11,768		11,768
Other assets	<u>4,471</u>	<u> </u>	<u>4,471</u>
Total Assets	<u>\$19,367,398</u>	<u>\$125,737</u>	<u>\$19,241,661</u>

Patriot General Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Taxes, licenses, and fees (excluding federal and foreign income taxes)		\$ 80,197
Current federal and foreign income taxes		101,822
Net deferred tax liability		77,477
Advance premium		681,312
Ceded reinsurance premiums payable (net of ceding commissions)		24,916
Amounts withheld or retained by company for account of others		69,625
Remittances and items not allocated		5,204
Provision for reinsurance		4,847
Payable to parent, subsidiaries, and affiliates		30,195
Write-ins for liabilities:		
Escheat Funds		130,546
Accounts payable—other		<u>98</u>
Total Liabilities		1,206,239
Common capital stock	\$4,000,000	
Gross paid in and contributed surplus	4,500,000	
Unassigned funds (surplus)	<u>9,535,423</u>	
Surplus as Regards Policyholders		<u>18,035,423</u>
Total Liabilities and Surplus		<u>\$19,241,662</u>

Patriot General Insurance Company
Summary of Operations
For the Year 2003

Investment Income

Net investment income earned	\$735,591
Net realized capital gains or (losses)	<u>(3,490)</u>
Net investment gain or (loss)	<u>732,101</u>
 Net income (loss) before dividends to policyholders and before federal and foreign income taxes	 732,101
Federal and foreign income taxes incurred	<u>105,000</u>
 Net Income	 <u>\$627,101</u>

Patriot General Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance		\$ 49,845
Net investment income		<u>736,290</u>
Total		786,134
Benefit and loss related payments	\$ 330,120	
Commissions, expenses paid, and aggregate write-ins for deductions	(59,467)	
Federal and foreign income taxes paid (recovered)	<u>61,321</u>	
Total deductions		<u>331,973</u>
Net cash from operations		454,161
Proceeds from investments sold, matured, or repaid:		
Bonds	1,150,550	
Cost of investments acquired (long-term only):		
Bonds	<u>948,146</u>	
Net cash from investments		202,404
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(643,117)</u>
Reconciliation		
Net change in cash and short-term investments		13,448
Cash and short-term investments, December 31, 2002		<u>2,198,908</u>
Cash and short-term investments, December 31, 2003		<u><u>\$2,212,356</u></u>

Patriot General Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets		\$19,241,661
Less liabilities		<u>1,206,239</u>
Adjusted surplus		18,035,422
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (or deficit)		<u>\$16,035,422</u>
Adjusted surplus (from above)		\$18,035,422
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security surplus excess (or deficit)		<u>\$15,235,422</u>

Patriot General Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000
Surplus, beginning of year	\$17,408,924	\$16,963,231	\$11,242,523	\$11,164,370
Net income	627,101	708,376	548,505	(18,360)
Change in net deferred income tax	46,192	(235,010)	370	
Change in nonadmitted assets	(47,124)	(25,053)	61,428	96,625
Change in provision for reinsurance	330	(2,620)	(564)	(112)
Cumulative effect of changes in accounting principles			110,969	
Capital changes:				
Paid in			1,500,000	
Surplus adjustments:				
Paid in			<u>3,500,000</u>	
Surplus, end of year	<u>\$18,035,423</u>	<u>\$17,408,924</u>	<u>\$16,963,231</u>	<u>\$11,242,523</u>

Patriot General Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000
#1	Gross Premium to Surplus	188%	206%	252%	309%
#2	Net Premium to Surplus	0	0	0	0
#3	Change in Net Writings	0	0	0	0
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0
#6	Investment Yield	4.4*	4.8	5.3	5.3
#7	Change in Surplus	4	3	51*	1
#8	Liabilities to Liquid Assets	7	10	9	4
#9	Agents' Balances to Surplus	3	4	5	8
#10	One-Year Reserve Development to Surplus	0	0	0	0
#11	Two-Year Reserve Development to Surplus	0	0	0	0
#12	Estimated Current Reserve Deficiency to Surplus	0	0	0	0

Ratio No. 6, which measures investment yield, was unusual in 2003 at 4.4%, only slightly below the expected minimum of 4.5%; given the current market conditions, this does not appear to be significant. Ratio No. 7, which measures the change in surplus, was unusual in 2001 at 51% due to a \$5 million dollar capital and surplus contribution from the company's parent, Middlesex Insurance Company.

Growth of Patriot General Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income (Loss)
2003	\$19,241,661	\$1,206,239	\$18,035,424	\$627,101
2002	19,061,481	1,652,559	17,408,922	708,376
2001	18,276,217	1,312,988	16,963,230	548,505
2000	11,590,522	347,999	11,242,522	(18,360)
1999	11,556,660	392,290	11,164,371	824,782

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	\$33,827,123	\$0	\$0	0.0%	0.0%	0.0%
2002	35,875,801	0	0	0.0	0.0	0.0
2001	42,712,798	0	0	0.0	0.0	0.0
2000	34,713,471	0	0	0.0	0.0	0.0
1999	36,529,163	0	0	0.0	0.0	0.0

Admitted assets and surplus have increased each year during the examination period, January 1, 2000, to December 31, 2003. The company had a net income in every year except 2000. The net loss in 2000 is attributable to decreased investment income in 2000. Net investment income in 2000 was 42.4% less than in 1999 and the net investment gain in 2000 was \$62 compared to \$148,096 in 1999. Gross premium written was relatively stable during the period. Net premium written, premium earned, and the loss, expense and combined ratios were all zero due to the company ceding 100% of its business to Middlesex Insurance Company.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments or recommendations in the previous examination report.

Summary of Current Examination Results

Affiliated Companies

It was noted that the company did not include any amounts in Schedule Y, Part 2, Column 8. According to NAIC Annual Statement Instructions – Property and Casualty, Schedule Y, Part 2, Column 8, should include all revenues and expenditures under management agreements and service contracts, all income tax amounts resulting from intercompany tax-sharing arrangements, all amounts for contracts for services provided by the insurer or purchased by the insurer from other affiliates, and all compensation under agreements with affiliated brokers and reinsurance intermediaries; the introductory portion of these instructions prescribe materiality limits on what must be reported. The company's interpretation is that these limits apply and therefore the company left this schedule blank. Pursuant to s. Ins 40.04, Wis. Adm. Code, all affiliated, management and service agreements are material and the amounts paid to or received from affiliates should be included in Column 8 of Schedule Y, Part 2, pursuant to s. 601.42 (3), Wis. Stat. It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

VIII. CONCLUSION

Admitted assets and surplus have increased each year during the examination period, January 1, 2000, to December 31, 2003. The company had a net income in every year except 2000. Gross premium written was relatively stable during the period. The company cedes 100% of its business to its parent, Middlesex Insurance Company, pursuant to a 100% quota share treaty.

The examination verified the financial condition of the company as reported in its annual statement. There were no specific comments or recommendations in the previous examination report. No examination adjustments or reclassifications are being made. One recommendation concerning properly completing Schedule Y, Part 2, of the Annual Statement is being made.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Affiliated Companies—It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Amy Wolff	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Opprieht	Insurance Financial Examiner
Richard Anderson	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Randy Milquet	EDP Specialists
Tim VandeHey	EDP Specialists

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge